

Washington State Unemployment  
Insurance Task Force Meeting  
November 17, 2005

Presentation by

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# Outline of Presentation

- Possible Objectives of UI Reform
- Effects of Legislation and Administrative Changes on UI costs in Washington
- Benefits in States with Four Quarter Averaging
- Repeat use of benefits in Washington
- Employer experience rating
- Initial recommendations for legislation

# Possible Objectives of UI Reform

- Cost restraint – improved competitiveness vis-à-vis other states
- Improved equity in provision of UI benefits
- Improved equity in setting UI tax rates for individual employers

# Task Force Authorizing Language

1. Reducing costs to foster a competitive business climate
2. Adjust benefits to make reasonable improvements in benefit equity

# Effects of Legislation and Administrative Changes on UI Costs in Washington

# Determinants of Unemployment Insurance Benefit Costs

- The unemployment rate (or TUR)
- The UI reciprocity rate  
(beneficiaries/unemployment or  $b/u$ )
- The replacement rate  
(weekly benefits/weekly wages or  $wb/ww$   
or  $WBA/AWW$ )

# The UI Benefit Cost Equation

- $B\% = (b/u) * (wb/ww) * (TUR / (100 - TUR))$
- $B\%$  = benefit cost rate, benefits as a percent of payroll
- $(b/u)$  = the recipiency rate
- $(wb/ww)$  = the replacement rate
- $TUR$  = the unemployment rate (a percent)
- Double effect of unemployment because it both raises benefit payouts and lowers taxes

# Washington and U.S., Costs of Regular UI: 1995-2004 Averages

	United States	Washington	Wash./ U.S.
Taxes/Payroll %	.66	1.26	1.91
Benefits/Payroll%	.76	1.40	1.84
(b/u) – reciprocity rate	.326	.429	1.32
(wb/ww) – replacement rate	.346	.413	1.20
TUR – unemployment rate	5.07	5.98	1.18
Benefit generosity = reciprocity rate*replacement rate	.113	.177	1.57

# Recent Legislation and Administrative Changes

- 2ESB 6097 of 2003
- EHB 2255 of 2005
- Enhanced job search oversight by ESD
  - Job Search Review (JSR) from 2001
  - Reemployment and Eligibility Assessment (REA) from 2005

# 2ESB 6097 of 2003 – Benefit Provisions

1. Freeze maximum WBA at \$496 and reduce the indexation percentage from 70% to 63%
2. Move from 2 high quarters calculation of the WBA in 2003 to 3 high quarters in 2004 and four quarters (or annual wages) in 2005
3. Reduce potential benefit duration from 30 to 26 weeks in April 2004
4. Increased voluntary quit disqualifications

# EHB 2255 of 2005

1. Restored two quarter calculation of WBA
2. Reduced the statutory replacement rate from 52% to 50% (or from 0.040 of 2 high quarter average wages to 0.0385)
3. Other benefit provisions from 2ESB 6097 unchanged
4. WBA calculations (2 quarters and 50% replacement rate) sunset in July 2007 and revert to previous provisions (four quarters and 52%) absent new legislation
5. Reed Act monies to finance the “added” benefit costs due to use of 2 quarters

# Estimated Effects

- Several changes to consider
- Changes have not been fully implemented
- Some uncertainties as to the effects of individual provisions
- Intention here is to provide ballpark estimates of individual changes and then to combine them for an overall assessment

# Restriction 1. Freezing the Maximum WBA

- The freeze and eventual activation of the 63% indexation percentage will reduce the replacement rate (wb/ww ratio).
- The 63% maximum will become operative in 2007 or 2008
- Regression estimate: reducing the indexation percentage by 7 percentage points will reduce the replacement rate by about 3 percentage points (say from 0.41 to 0.38) in 2007 or 2008 when the 63% maximum is operative

# Restriction 2 – Lower Statutory Replacement Rate

- Reduction from 0.52 to 0.50 in 2005
- Effect on the replacement rate (wb/ww ratio) is modest
- Replacement rate may be about 1.5 percentage points lower (say from 0.410 to 0.395)
- ESD estimate is a reduction in WBA of \$8 or about 2.5 percent

# Restriction 3 – Changing the Basis for the WBA Calculation

- 3 quarter averaging used in 2004
  - ESD calculation with 2004 data indicates the average WBA reduced by \$24
  - 76.2 percent of claimants had a reduced WBA
- 4 quarter averaging used in first five months of 2005
  - ESD calculation with 2004 data indicates the average WBA reduced by \$49
  - 81.4 percent of claimants had a reduced WBA
- Reversion to 2 quarter averaging in EHB 2255

# Restriction 4 – Shorter maximum benefit duration - 1

- Reduction from 30 weeks to 26 weeks in 2004
- Background data on duration 1995-2003
  - Average duration 17.92 weeks
  - Average duration of exhaustees 25.16 weeks
  - Average exhaustion rate 0.331
  - Share of exhaustees paid 27-30 weeks 0.480,  
or 0.159 of all recipients
  - Avg. dur. for 27-30 week group 29.6 weeks

# Restriction 4 – Shorter maximum benefit duration - 2

- Calculated effect of shorter potential duration
- Persons who received 27-30 weeks will now only receive 26 weeks (0.159 of all claimants,  $0.159 = 0.48 * 0.331$ )
- All others not affected
- 1995-2003 average duration 17.92 weeks
- 30 weeks  $17.92 = (0.841 * 15.55) + (0.159 * 29.6)$
- 26 weeks  $17.34 = (0.841 * 15.55) + (0.159 * 26.0)$
- Reduction of 0.58 weeks represents 3.2% of 17.92

# Restriction 4 – Shorter maximum benefit duration - 3

- Estimates by ESD
- 0.4 weeks – difference between 15.9 weeks based on a survival rate calculation with twelve months of data ending April 2004 (30 week pot. dur.) and actual duration of 15.5 weeks for April-Sept. 2005
- 1.0 weeks – differences between survival rate calculation of 15.9 weeks and actual duration of 14.9 weeks for the period October 2004 to Sept 2005

# Restriction 5 – Restrictions on Compensable Voluntary Quits - 1

- Several categories of voluntary quits (VQ) deemed not compensable in 2ESB 6097
- Associated disqualifications are typically for the duration of the unemployment spell
- Study of voluntary quits mandated by 2ESB 6097 found that the VQ denial rate was 0.118 higher during the last half of 2004 under new law compared to old law (0.729 versus 0.611)

# Restriction 5 – Restrictions on Compensable Voluntary Quits - 2

- Several categories of voluntary quits (VQ) deemed not compensable in 2ESB 6097
- Total VQ determinations in Wash. in 2004 = 45,233
- Added VQ disqualifications =  $.118 * 45,233 = 5,337$
- Average duration per disqualification?
  - Overall average duration 1995-2003 = 17.92 weeks
  - Assume those disqualified would collect for 12.0 weeks
- Estimate of added weeks disqualified,
  - $5,337 * 12.0 = 64,044$ , or 1.8% of 3,626,672 total weeks compensated in 2004

# Restriction 6 – Enhanced Job Search Oversight - 1

- Job search reviews (JSR) since 2001
- Reemployment and eligibility assessment (REA) since 2005
- Nonseparation nonmonetary determinations (decisions about continuing eligibility) increased from 65,586 in 2000 to 109,000 in 2004
- Denials on nonseparation issues increased from 48,523 to 82,555 or by 34,032 over the period
- Issues were mainly “able and available for work” and “reporting requirements”

# Restriction 6 – Enhanced Job Search Oversight - 2

- Average duration per disqualification?
  - Individual disqualification period may be one week or for the duration of the spell of unemployment
  - Some disqualifications defer but do not reduce total benefit entitlements
  - Average duration per disqualification is a guess
  - 2.0 weeks used here
- 34,032 increased denials times 2.0 = 68,064 weeks
- Estimate of added weeks disqualified
  - 68,064 weeks = 1.9% of 3,626,672 weeks compensated in 2004

# Estimated effect of all changes

- Recall generosity = reciprocity rate (b/u) times the replacement rate (wb/ww)
- 1995-2004 averages:
  - $b/u = 0.429$
  - $wb/ww = 0.413$
  - Generosity = 0.177
  - National average generosity = 0.113
  - Wash./U.S. ratio = 1.57

# Review of restrictions - 1

- $R1 = 0.928$  - freeze max WBA and index it to 63% of AWW – reduces (wb/ww) by 0.030/0.414 or 0.072
- $R2 = 0.964$  – lower statutory replacement rate from 52% to 50% – reduces (wb/ww) by 0.015/.414 or 0.036
- $R3 = 1.0$  (continued use of 2 high quarters for WBA) if EHB 2255 is made permanent

# Review of restrictions - 2

- $R4 = 0.968$  – shorter maximum potential duration - Vroman calculation - 0.58 weeks = 3.2% of 17.92 weeks average duration
- $R5 = 0.982$  – increased VQ disqualifications from 2ESB 6097 – 1.8% of total weeks
- $R6 = 0.981$  – increased nonseparation disqualifications from JSR and REA initiatives – 1.9% of total weeks

# Summary of Restrictions

- Replacement rate (wb/ww) after restrictions and EHB2255 remaining in effect  
=  $0.413*(R1*R2*R3) = 0.414*(0.928*0.985*1.0)$   
=  $0.413*(.898) = 0.371$
- Reciprocity rate (b/u) after restrictions  
=  $0.429*(R4*R5*R6) = 0.429*(.968*.982*.981)$   
=  $0.429*(0.933) = 0.400$
- Revised estimate of generosity =  $0.371*0.400 = 0.148$
- Generosity: Wash./U.S. =  $0.148/0.113 = 1.31$
- With restrictions, generosity in Washington is reduced from 57 percent to 31 percent above the U.S. average (0.113) and close to Oregon (0.162) and Idaho (0.146)

# Benefits in States with Four Quarter Averaging

# Summary Data – 2004 and 1995-2004

	Ann. Wg. %	Statut. R Rate 2005	MxWB /AWW 2004	Avg. R Rate 1995-04	MBA/ BPE 2005	Recip. Rate 1995-04	Gener -osity 1995-04
Alaska	0.90	0.468	0.340	0.279	0.241	0.567	0.158
Louis.	1.00	0.520	0.427	0.311	0.270	0.193	0.060
N Hamp	1.00	0.520	0.497	0.328	0.265	.0188	0.062
Oregon	1.25	0.650	0.618	0.384	0.325	0.420	0.161
Ken.	1.31	0.680	0.579	0.390	0.309	0.296	0.115
W. Va.	1.00	0.520	0.643	0.392	0.276	0.287	0.113
Wash.	0.96	0.500	0.663	0.413	0.333	0.429	0.177
U.S. Avg		0.530	0.494	0.346	0.333	0.326	<sup>28</sup> 0.113

# ESD Tabulations CY2004 Data - 1

- Overall – 187,207 claimants in CY 2004
  - Use of 3 quarters reduces WBA by 7.6%
  - Use of 4 quarters reduces WBA by 16.0%
- Effect of using 4 quarters by gender
  - Men's WBA reduced by 16.6%
  - Women's WBA reduced by 14.7%
- Effect of using 4 quarters by area
  - Urban WBA reduced by 14.9%
  - Rural WBA reduced by 18.3%

# ESD Tabulations CY2004 Data - 2

- Overall – 187,207 claimants in CY 2004
  - Use of 4 quarters reduces WBA by 16.0%
- Effect of using 4 quarters by industry
  - Ag. & Forestry - WBA reduced by 22.5%
  - Fishing – WBA reduced by 19.5%
  - Construction – WBA reduced by 19.0%
  - Aerospace Mfg. – WBA reduced by 9.1%
  - Finance and Insurance – WBA reduced by 10.0%
- Effect of using 4 quarters by ethnicity
  - White-not Hispanic - WBA reduced by 15.4%
  - Black-not Hispanic – WBA reduced by 17.4%
  - Hispanic – WBA reduced by 20.2%

# Four quarter averaging- Summary 1

- Presently used in 6 UI programs
- Two are quite generous programs (Alaska and Oregon, generosity ranked 12 and 10 respectively)
- Two are average generosity programs (Kentucky and West Virginia, ranked 25 and 26 respectively)
- Two are among the least generous programs (Louisiana and New Hampshire, ranked 50 and 49 respectively)

# Four quarter averaging- Summary 2

- Wide variety of statutes in the 6 states related to replacement rates and reciprocity rates
- High statutory replacement rates (Kentucky and Oregon) and high weekly benefit maximums (Oregon and West Virginia) contribute to high replacement rates
- High MBA/BPE ratio contributes to high reciprocity (Oregon)
- Alaska is an outlier state in having a very high volume of interstate claims

# Four quarter averaging – Summary 3

- If four quarter (annual wage) computations of weekly benefits were reinstated in Washington, over 80 percent of recipients would experience lower benefits
- Coupled with the freeze in the maximum WBA and the reduced statutory replacement rate (to 50% in 2005), the actual replacement rate would decrease to roughly 0.32-0.34
- The reduction implies substantial hardships for many claimants
- Larger reductions in WBA for minorities than for Whites
- Larger reductions in WBA in agriculture and construction
- Lower actual replacement rates could be offset by increasing the statutory replacement rate from its present 50% to something like 60% or higher

# Repeat Use of UI Benefits

# Seven Year Chart and Table

- Persons with payment in 1 or more years – 1998 to 2004 – 990,708 persons
  - 1 claim – 642,847 – 64.9% of total
  - 4+ claims – 79,183 – 8.0% of total
  - 7 claims – 9,015 – 0.9% of total

# Four Year Chart and Table -1

- Persons with a payment in at least one year – 1998 to 2001 – number of claims 1998-2004 – 628,865 persons
  - 1 claim – 331,862 – 52.8% of total (628,865)
  - 4+ claims – 79,183 – 12.6% of total
- Agriculture – high repeat use
  - 1 claim – 11,927 – 3.6% of single claim total (331,862)
  - 4+ claims – 12,931 – 16.3% of 4+ claims total (79,183)
- Construction – high repeat use
  - 1 claim – 31,125 – 9.4% of single claim total (331,862)
  - 4+ claims – 25,154 - 31.8% of 4+ claims total (79,183)

# Four Year Chart and Table -2

- Persons with a payment in at least one year – 1998 to 2001 – number of claims 1998-2004 – 628,865 persons
  - 1 claim – 331,862 – 52.8% of total (628,865)
  - 4+ claims – 79,183 – 12.6% of total
- Retail Trade – low repeat use
  - 1 claim – 47,316 – 14.3% of single claim total (331,862)
  - 4+ claims – 2,818 – 3.6% of 4+ claims total (79,183)
- Service – low repeat use
  - 1 claim – 108,312 – 32.6% of single claim total (331,862)
  - 4+ claims – 13,563 - 17.1% of 4+ claims total (79,183)

# Claimants that received a first payment in 1998 and 2004

- Total number = 185,465 in 1998
- Payments in one year only – 71,262 – 38.4%
- Payments in 4+ years – 49,847 – 26.9%
- Payments in all 7 years – 9,015 – 4.9%
  
- Total number = 187,207 in 2004
  - Close to number in 1998
  - Payments in all seven years – 9,015 - 4.8%

# Data on 7 year repeat claimants - 1

- Total – 9,015 or 4.8% of 187,207
- Gender
  - 3,030 women - 4.3% of women claimants in 2004
  - 5,985 men - 5.1% of men claimants in 2004
- Age in 2004
  - 24 and younger – 1.7% of age group beneficiaries
  - 25-34 4.5% of age group beneficiaries
  - 35-44 6.4% of age group beneficiaries
  - 45-54 5.4% of age group beneficiaries
  - 55 and older 3.8% of age group beneficiaries

# Data on 7 year repeat claimants - 2

- Total – 9,015 or 4.8% of 187,207
- Education
  - 0-7 years – 23.6% of education group
  - 8-11 years - 7.5% of education group
  - 12 and GED - 4.6% of education group
  - More than 12 - 1.5% of education group
- Ethnicity
  - Asian/Pacific Is. – 2.0% of ethnic group beneficiaries
  - Black, non Hispanic 1.1% of ethnic group beneficiaries
  - Hispanic 15.9% of ethnic group beneficiaries
  - White, non Hispanic 3.5% of ethnic group beneficiaries

# Industry-gender of 7 year repeaters

- Overall male percentage – all claimants in 2004
  - 117,203 men of 187,207 - 62.6%
- 7 year repeat claimants
  - 5,985 men of 9,015 - 66.4%
- Industries with high male shares of 7 yr. repeaters
  - Fishing – 95.4%
  - Construction – 91.3%
  - Other Mfg – 87.0%
- Industries with high percentages of women 7 yr. repeaters
  - Food processing – 59.8%
  - Wholesale trade – 61.1%
  - Retail trade – 72.3%
  - Service – 62.2%

# Seasonal pattern of repeaters

- Results from Canadian research
- Men frequently enter benefit status in fall and winter
- Women frequently enter benefit status in summer
- Women repeaters have a wider industry distribution than men repeaters who are heavily concentrated in agriculture and construction

# Average % of MBA used by seven year repeaters in 2004

- MBA - maximum benefit amount
- Overall percentage – All claimants – 50.5%
  - Women 52.8%
  - Men 49.3%
- Fishing – 75.4%
- Ag. – 48.8%
- Building construction – 56.5%
- Heavy and specialty construction – 46-47%
- Food processing – 58%

# Conformity of Proposals on Repeat Use

- Meeting at USDOL-OWS (with Jerry Hildebrand and Robert Johnston) on November 9, 2005
- They have not reviewed legislation from other states in recent years that has addressed repeat use
- The question of nondiscrimination will be an issue
- Repeat use proposals affecting the WBA would probably present more problems than proposals affecting the MBA
- Want to see specific legislative language before making any definite statements

# Repeat use of UI: Summary - 1

- Widespread in Washington (as in other states) – only 38.4% of 1998 claimants had a single claim between 1998 and 2004
- Repeat use most common in agriculture and construction among the broad industry groups
- More common among men than women, but women account for more than half in selected industries

# Repeat use of UI: Summary - 2

- Definite patterns of repeat use by age, ethnicity and level of schooling
  - Increases in prevalence up to age 35-44
  - Much higher among Hispanics
  - Much higher among those with low educational attainment
- On average, 7 year repeat users utilized about half of their MBAs in 2004
- Proposals on repeat use are not per-se prohibited by USDOL-OWS but details would need to be seen before making a definitive ruling

# Employer experience rating

# Three “Socialized” Charges

- Ineffective charges – benefit payments exceed taxes paid by subject employer
- Noncharged benefits – Benefit payments deliberately not assigned to individual employers, e.g., for quits
- Inactive account charges – charges caused by firms that have ceased operations

# Ineffective charges -1

- Employers in rate class 40 cause most of the ineffective charges
- Tabulation of employers for rate year 2005 shows high concentration in rate classes 38-40 for agriculture, fishing and construction
- Tabulation of dollar amounts of ineffective charges by industry are in an ESD handout

# Rated Employers by Industry - 2005

Industry	Number	No.& Proportion in Rate Class 1	No.&Proportion in Rate Classes 38-40
Agriculture, F.& F.	7,119	1,442 (.203)	1,986 (.279)
Construction	15,748	3,504 (.223)	4,143 (.263)
Manufacturing	6,065	1,348 (.222)	694 (.114)
Wholesale Trade	9,695	4,457 (.460)	852 (.088)
Retail Trade	11,977	4,565 (.381)	589 (.049)
Transport& Util.	4,883	1,460 (.299)	631 (.129)
Finance and R.E.	9,516	4,906 (.516)	477 (.050)
Services	48,572	20,281 (.418)	2,745 (.057)
Private Household	32,462	25,823 (.795)	2,675 (.082)
Total	146,037	67,786 (.464)	14,792 (.101)

# Ineffective Charges - 2

- In rate year 2004 ineffective charges in Washington were 0.156 of total benefits
- Simple average of 44 states' ineffective charge proportions in 2004 was 0.241
- Washington had the 5<sup>th</sup> lowest ineffective charge proportion of 44 states in 2004
- The proportion in Washington was 0.090 in 2005
- Data from other states in 2005 not yet available

# Noncharged benefits - 1

- Historically Washington's noncharge proportion has been above-average
- 1988-2003 U.S. Avg.      – 0.111
- 1988-2003 Wash. Avg.     - 0.222
- Major changes in 2ESB 6097
  - Voluntary quits restricted
  - MLFA eliminated

# Noncharged benefit proportions

Rate Year	Washington	U.S. Average
2002	.181	.127
2003	.153	.110
2004	.172	.105
2005	.108	
2006	.067	

Data for rate year 2006 are  
preliminary

# Inactive account charges - 1

- Historically Washington's inactive account charges proportion has been above-average
- 1988-2003 averages
  - Washington – 0.116
  - U.S. – 0.084
- In rate year 2004 Washington ranked 14<sup>th</sup> of 47 states in its inactive charge proportion
- Washington has had above-average inactive charge proportions in every year since 1988

# Inactive account charges - 2

- Washington has high turnover of subject employers
- High turnover is longstanding
- High turnover remains even after COPES accounts are removed from turnover data
- High turnover deserves additional study
- High turnover could be linked to SUTA dumping

# Turnover of Employers in Washington - 2004

	Washington ETA 581	Washington COPES Excl.	U.S ETA 581
Birth Rate	0.165	0.177	0.128
Birth Rate Wash. Rank	6	5	
Death Rate	0.243	0.172	0.132
Death Rate Wash. Rank	1	5	

ETA 581 reports but modified to  
remove COPES accounts

# Socialized Charges: Summary

- Washington has made major gains in reducing socialized charges in recent years
- Bill 2ESB 6097 of 2003 has reduced noncharging through VQ disqualifications and elimination of MLFA
- Ineffective charges could be further reduced through increasing the maximum tax rate (above 6.5%) and eliminating special tax treatment of some industries
- Inactive account charges remain substantially above the national average

# Initial Recommendations for Legislation

# 1. Retain key features of present UI financing arrangements

- Indexation of taxable wage base at 80% of statewide average wages
- Use 4 year benefit ratios to set experience-rated UI taxes

## 2. Retain certain existing benefit features

- Maximum potential duration of 26 weeks
- Indexation percentage for Max WBA at 63% of weekly wages
- Replacement rate of 50 percent (0.0385 of average two high quarter wages)
- Increased disqualifications for voluntary quits (possibly revisit this after a few years of experiences with the various disqualifications)

### 3. Make permanent the restoration of 2 quarter averaging

- The move to 4 quarter averaging caused a large reduction in the average WBA (\$40-\$50 range) and much larger reductions for many individual claimants
- The other benefit features of 2ESB 6097 and EHB 2255 will also reduce the WBA with full effects to be in place only in 2007 or 2008

## 4. Develop a repeat use penalty

- One possibility: if in the past two benefit years (over past 27 months) a claimant has used 75% or more of MBAs in both years, reduce the MBA/BPE (base period earnings) ratio for the current benefit year
  - The past usage percentage (75%) could be varied
  - The extent of reduction in MBA/BPE ratio (currently 0.333) could be 10% (to 0.300) or 20% (to 0.267) or 25% (to 0.250)
  - This would reduce potential weeks but not the WBA
  - Note that: 1) the length of the look-back (27 months), 2) the past usage percentage (75%), and 3) the size of the reduction in the MBA/BPE ratio (10%, 20% or 25%) remain to be set

## 5. UI Taxes

- Apply the 6.5% maximum tax rate to all employers
- End the tax relief provided under EHB 2255 through use of Reed Act monies that finance a portion of benefit payments

## 6. High employer turnover - 1

- Provide ESD with increased power to lift the corporate veil and track gaming (artificial turnover of subject accounts)
  - Make ESD authority more like that of the Department of Revenue (DOR)
  - Alternatively, develop protocols with DOR to accomplish the same enhancement of oversight/enforcement objectives

## 6. High employer turnover - 2

- To achieve increased authority/oversight by ESD, an interagency study group may need to be formed
- Study the turnover phenomenon before trying to remedy it (probably implies a longer, perhaps multiyear, time horizon)
- Ensure SUTA dumping legislation achieves more effective oversight of turnover
- Craft effective PEO legislation
- May be helpful to study experiences of other states

# Final Observations

- Highest priority is to restore 2 quarter averaging as a permanent feature
- Legislation should aim to improve equity for both claimants and employers
  - Reduce repeat use of benefits
  - Reduce interindustry cross-subsidies